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SUBJECT: Austria's New Government a Grand Coalition

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Summary

1. (SBU) Following the January 8 announcement that the Social Democratic (SPO) Chairman Alfred Gusenbauer would lead a Grand Coalition with the People's Party (OVP), the OVP presented its ministerial team on January 9. Wilhelm Molterer, the OVP's Parliamentary Leader, will become Vice-Chancellor and Finance Minister. The OVP will have seven out of 13 ministerial portfolios, with incumbents in the Foreign Ministry (Ursula Plassnik), Economy and Labor Ministry (Martin Bartenstein), and Agriculture and Environment Ministry (Josef Proell). In addition, the current Defense Minister, Guenther Platter, will move over to head the Interior Ministry. Outgoing Chancellor Wolfgang Schuessel, in a surprise move, will take over Molterer's position as OVP Leader in Parliament. The SPO will announce its personnel decisions on January 10, but there is already significant criticism from within the SPO ranks that the party "gave away" too many key ministries. Moreover, on the two main substantive issues in the coalition negotiations - abolishing student fees and canceling the Eurofighter order - the SPO backed down significantly from its initial position. The new GOA's economic program emphasizes further budget reductions before any loosening of fiscal policy. Reaction from the financial community on the government's constellation and economic objectives has been overwhelmingly positive. The retention of Ursula Plassnik at the Foreign Ministry augurs for continuity in Austrian foreign policy generally, and cooperation with the United States specifically. End Summary.

Gusenbauer Chancellor, Molterer Vice-Chancellor

2. (U) Ninety-nine days after national elections on October 1, 2006, Austria's two main parties, the Social Democratic Party (SPO) and People's Party (OVP) reached agreement on January 8 to form a Grand Coalition. SPO Chairman Alfred Gusenbauer, as expected, will become Chancellor. In addition to the Chancellery, the SPO will control the following six ministries:

- Womens' Affairs
- Transportation and Infrastructure
- Education, Art, and Culture
- Social Affairs
- Justice
- Defense

The OVP, which polled 34.3% compared to the SPO's 35.3%, will receive the following seven ministries:

--Foreign Affairs (Ursula Plassnik, incumbent)
--Finance (Wilhelm Molterer, former OVP Parliamentary Leader)
--Interior (Guenther Platter, former Defense Minister)
--Economy and Labor (Martin Bartenstein, incumbent)
--Agriculture and Environment (Josef Proell, incumbent)
--Science and Research (Johannes Hahn, former OVP Vienna Chairman)
--Health, Family, and Youth (Andrea Kdolsky, former Lower Austrian Hospitals Administrator)

In a surprise move, Chancellor Schuessel announced that he would replace Molterer as the OVP's Floor Leader in Parliament. The SPO Executive Committee is meeting on January 9 to discuss ministerial portfolios and will announce its personnel decisions on January 10.

New Government's Program

¶3. (U) During a January 8 joint press conference, Gusenbauer and Schuessel outlined major initiatives the new government plans to take on. Gusenbauer characterized the goal to reduce unemployment as the coalition's "big project." The GoA will strive to reduce the budget further, with the goal of achieving a budget surplus by 2010. This, in turn, will permit a tax cut. On-again, off-again privatizations in the telecom and postal sectors are now off. The new government will also extend the legislative term from 4 to 5 years, beginning after the next elections (2010). The new GoA also plans to lower the voting age from 18 to 16.

SPO Gave Away Too Much?

¶4. (SBU) There has already been significant criticism from within the SPO's ranks that the party "gave away" too many key ministries

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to the OVP in the coalition negotiations. The SPO's former Vice-Chancellor in the 1970s and 1980s, Hannes Androsch, characterized the government as "an OVP government with an SPO Chancellor underneath it." The SPO-near trade union agreed to the coalition, but "with reservations." Josef Cap, the SPO's Parliamentary Leader, admitted that the party had made difficult compromises, but defended the SPO portfolios as key to promote economic and social development in Austria.

¶5. (SBU) On the two most difficult issues in the coalition negotiations - abolishing university student fees and canceling the GoA's Eurofighter order - the SPO appears to have backed down substantially from its initial position. The fees, supported by the OVP, will remain in place, but students will henceforth be able to do 60 hours of community service in lieu of paying the fees, if they so choose. The new Defense Minister will review the decision to purchase 18 Eurofighter jets, following the conclusion of the current parliamentary hearings on the issue.

Comment

¶6. (SBU) The SPO has clearly made major concessions to the OVP in the portfolio distributions, with the junior partner holding Foreign Affairs, Interior, Finance, Economy, and Agriculture. In addition, the SPO Defense Minister will have the thankless task of trying to renegotiate the Eurofighter deal with EADS. On economic policy, the OVP controls all the key ministries. The emphasis appears to be on fiscal discipline, rather than on fulfilling the SPO's campaign promises for increased social spending and higher taxes on business and upper- and middle-income Austrians. Comments from the financial sector on the new government's constellation and program have been uniformly positive.

¶7. (SBU) In foreign policy, there is some potential for disagreement between an SPO Chancellor and OVP Foreign Minister. Nevertheless, the broad outline for Austria's foreign policy will

remain constant, as will its cooperation with the USG. An SPO Defense Minister will continue to favor Austria's strong engagement in the Balkans, though he/she will be even more reluctant than the current OVP Defense Minister to commit Austrian forces to Afghanistan or Iraq.

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